



The Pakistan Credit Rating Agency Limited

Rating Report

Askari General Insurance Company Limited

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Rating History

Dissemination Date	Long Term Rating	Short Term Rating	Outlook	Action	Rating Watch
28-Aug-2019	AA	-	Stable	Maintain	-
27-Feb-2019	AA	-	Stable	Maintain	-
30-Nov-2018	AA	-	Stable	Upgrade	-
29-Jun-2018	AA-	-	Stable	Maintain	-
29-Sep-2017	AA-	-	Stable	Maintain	-
17-Mar-2017	AA-	-	Stable	Upgrade	-
15-Dec-2015	A+	-	Stable	Maintain	-
05-Jan-2015	A+	-	Stable	Maintain	-
20-Jan-2014	A+	-	Stable	Upgrade	-

Rating Rationale and Key Rating Drivers

The rating captures the solid risk profile of the company along with improved profitability. The company strategy led to volumetric growth over the years and improved core underwriting performance. Askari Insurance has been able to keep expenses under check while pursuing growth. AWT is the sponsor behind AGICO. It has demonstrated support to the company, last equity injection is a witness.

The rating also incorporates ensuring synergistic and oversight benefits from its association with AWT. The sustained liquidity profile provides a cushion to the risk absorption capacity.

The management efforts for sustaining the overall quality of control environment, supported by real-time operating software providing tools for holistic oversight and efficient decision making had borne fruits in the past. Going forward, it intends to fortify its position in non-conventional segments, while using alternative distribution channels.

The rating is dependent upon AGICO's ability to sustain its market share and its profitability from the core business and investment income as well. At the same time, the proportional improvement must be recorded in its liquidity.

Disclosure

Name of Rated Entity	Askari General Insurance Company Limited
Type of Relationship	Solicited
Purpose of the Rating	IFS Rating
Applicable Criteria	PACRA_Methodology_GI_FY19(Jun-19)
Related Research	Sector Study General Insurance(May-19)
Rating Analysts	Rohail Amjad rohail.amjad@pacra.com +92-42-35869504



Profile

Legal Structure Askari General Insurance Company Limited (AGICO) is a public listed company

Background Askari General Insurance Company Limited (AGICO) commenced commercial operations in 1995. The company is listed on all three bourses of the country. With its head office in Rawalpindi, the company operates with a nationwide network of 19 branches.

Operations The company's business comes from its branches in Islamabad and Rawalpindi, while majority of branches are located in Punjab (13) followed by Sindh (4) & KP (2) and one corporate branch in Karachi, targeting corporate business from Southern Pakistan. The rest of the branch network has been classified as retail branches, focusing retail customers. The product portfolio of the company, in addition to three core insurance products (fire, marine and motor), includes health, bond, travel, and crop insurance. AGICO is also engaged in contractor's all risk insurance, including civil engineering projects

Ownership

Ownership Structure AGICO's controlling stake is with AWT (59%). Given Askari Insurance being the only financial institution within AWT, this should engender higher attention and focus

Stability There is no change in the shareholding of the company recently

Business Acumen AWT was set up in 1971 by Pakistan Army under the 'Societies Registration Act' with the mandate of promoting the welfare of retired personnel of the Army and their families through the creation of income and employment generating activities.

Financial Strength The Trust is currently engaged in sugar, textile, real estate, banking, leasing, insurance, cement, and travel services. Going forward, AWT plans to establish an insurance house, which would be responsible for managing general and life insurance under the umbrella of AWT, serving both AWT group and Fauji Foundation group

Governance

Board Structure The overall control of the company vests in the eight-member BoD (excluding the CEO).

Members' Profile Board comprises five representatives of AWT – retired army officials including the Chairman – Lt. Gen. (R) Najib Ullah Khan, and two independent members, Mr. Munir Malik and Mr. Imran Iqbal. Annexure I provide details of the BoD and key experience of individual members.

Board Effectiveness Board comprises five representatives of AWT – retired army officials including the Chairman – Lt. Gen. (R) Najib Ullah Khan, and two independent members, Mr. Munir Malik and Mr. Imran Iqbal. Annexure I provide details of the BoD and key experience of individual members.

Financial Transparency The auditors of the company, KPMG Taseer Hadi & Co, expressed an unqualified audit opinion and review on financial statements for the year ended Dec-18.

Management

Organizational Structure AGICO has a detailed organizational structure segregating the company's operations from the marketing function, with clearly demarcated reporting lines, to manage the conflict of interest in the two functions.

Management Team AGICO has a detailed organizational structure segregating the company's operations from the marketing function, with clearly demarcated reporting lines, to manage the conflict of interest in the two functions.

Effectiveness The CEO meets all department heads in joint meeting every Monday, to discuss key issues and developments. This ensures smooth implementation of company's strategies, while enhancing overall control environment. Moreover, AGICO has a Disciplinary Committee – led by the CEO – comprising HR head, the CFO and the head of administration.

MIS Cognizant of the importance of up-to-date information for timely business decisions and in line with the industry trend, AGICO deploys real time web-based Insurance Management System (IMS) developed in-house. This has provided management with sophisticated management tools in structured MIS system, helping the company to bring operational efficiency

Claim Management System Owing to the specialized nature of the claims in the health segment, the department has been separated from non-health claims and makes use of professionals from the health sector including medical practitioners. Claims settlement is completely centralized and handled at HO level. All intimated claims are routed through 'Claims Service Centre'

Investment Management Function AGICO maintains a formal Investment Policy Statement (IPS), formulated in March 2009 under the BoD guidelines, which was last updated in CY17. In line with the inherent risky nature of equity market, AGICO's IPS has capped the investment in shares and equity based mutual funds at 10% of the total investments. Further, investment in shares is narrowed to blue chip stocks only

Risk Management Framework The company has catastrophic treaty in place on XoL basis. The company continued the treaty arrangements in CY16 on proportional basis, which places the company's risk exposure in distinctively comfortable position

Business Risk

Industry Dynamics Pakistan's general insurance witnessed continuous growth (CAGR 4 years 11%) but economic slowdown may hamper future growth rate. Fire and motor segments have been growth drivers. Miscellaneous segment has seen largest growth in non-conventional avenues, third-party, health, crop etc. Industry is bringing in technological advancements aimed to enhance efficiency and customer experience

Relative Position AGICO is categorized as a medium sized insurance company with a market shares of about 3%

Revenue During the period 3MCY19, the company posted a combined GPW of PKR 585mln. The motor segment was the forte of the company, comprising 42% of the total revenue, followed by Misc(19%), Health (16%), Fire (14%) and Marine (9%)

Profitability The company posted an underwriting profit of PKR 49mln whereas the takaful operations' underwriting loss 76 thousand. Profit before tax was PKR 101mln as against PKR 103mln declining by a marginal 1% YoY.

Investment Performance The investment income increased by an impressive 75% mainly on account of the reversal of diminution in investments value which was held available for sale

Sustainability Going forward, the company aims to acquire untapped market and the investment income prospects are also sanguine on account of rising interest rates.

Financial Risk

Claim Efficiency The claims efficiency ratio of the company has been just above three months for the past many years

Re-Insurance The reinsurers panel includes Scor Re Swiss Re(rated `A`), Trust Int'l (rated `A`), Malaysian Re (rated `A`), Korean Re (rated `A`), Swiss Re (rated `AA-`), Hannover Re (AA-), AON, Al Futtaim Wills, Mib, Nasco France, Al Wasl, J.B.Boda and PRCL (rated locally AA)

Liquidity The company has liquidity of 0.9x at end Mar'19 whereas annually company has a very sound coverage of above 3x

Capital Adequacy The company has equity of PKR 1.1bln, whereas the paid-up capital is PKR 506mln



The Pakistan Credit Rating Agency Limited

**GENERAL INSURANCE
Financials [Summary]**

Askari General Insurance Company Limited (AGICO)

BALANCE SHEET	Mar-19	<-----PKR (mln)----->		
		Dec-18	Dec-17	Dec-16
Investments				
Liquid Investments	2,865	1,744	1,483	1,634
Other Investments	51	42	395	61
	<u>2,916</u>	<u>1,786</u>	<u>1,878</u>	<u>1,695</u>
Insurance Related Assets	1,418	410	1,670	1,143
Other Assets	242	2,253	869	889
Assets - Window Takkaful	239	139	120	194
TOTAL ASSETS	<u>4,815</u>	<u>4,587</u>	<u>4,537</u>	<u>3,921</u>
Equity	1,660	1,734	1,510	1,385
Underwriting Provisions	1,537	1,750	1,629	1,232
Insurance Related Liabilities	1,044	977	986	828
Other Liabilities	491	124	369	256
Liabilities - Window Takkaful	83	69	43	24
	<u>4,815</u>	<u>4,587</u>	<u>4,537</u>	<u>3,920</u>
INCOME STATEMENT (Extract)*	Mar-19	Dec-18	Dec-17	Dec-16
Gross Premium Written (GPW)	585	3,180	2,949	2,449
Net Premium Revenue (NPR)	553	1,953	1,591	1,329
Net Claims	340	1,149	730	680
Underwriting Income/Loss - Adjusted	54	272	437	361
Investment Income	49	76	103	135
PROFIT BEFORE TAX	124	377	313	305
PROFIT AFTER TAX	90	355	334	245
RATIO ANALYSIS (Conventional)	Mar-19	Dec-18	Dec-17	Dec-16
Underwriting Results				
Loss Ratio	73%	59%	57%	51%
Combined Ratio	43%	73%	87%	93%
Performance				
Operating Ratio	38%	78%	80%	82%
Investment Yield	2%	4%	6%	8%
Liquidity & Solvency				
Liquidity Ratio – times	5.7	3.8	3.4	3.7

*Including Window Takkaful Operations

Asakri General Insurance Company Limited (AGICO)

Aug-19

Insurer Financial Strength (IFS) Rating Scale & Definitions

Insurer Financial Strength (IFS) rating reflects forward-looking opinion on relative ability of the insurance company to meet policyholders and contractual obligations.

Scale	Definition
AAA	Exceptionally Strong. Exceptionally strong capacity to meet policyholder and contract obligations. Risk factors are minimal and the impact of any adverse business and economic factors is expected to be extremely small.
AA+	Very Strong. Very strong capacity to meet policyholder and contract obligations. Risk factors are modest, and the impact of any adverse business and economic factors is expected to be very small.
AA	
AA-	
A+	Strong. Strong capacity to meet policyholder and contract obligations. Risk factors are moderate, and the impact of any adverse business and economic factors is expected to be small.
A	
A-	
BBB+	Good. Good capacity to meet policyholder and contract obligations. Although risk factors are somewhat high, and the impact of any adverse business and economic factors is expected to be manageable.
BBB	
BBB-	
BB+	Weak. Weak capacity to meet policyholder and contract obligations. Risk factors are very high, and the impact of any adverse business and economic factors is expected to be very significant.
BB	
BB-	
B+	Very Weak. Very weak with a very poor capacity to meet policyholder and contract obligations. 'CCC': Risk factors are extremely high, and the impact of any adverse business and economic factors is expected to be insurmountable. 'CC': Some form of insolvency or liquidity impairment appears probable. 'C': Insolvency or liquidity impairment appears imminent.
B	
B-	
CCC	Very high credit risk. Substantial credit risk "CCC" Default is a real possibility. Capacity for meeting financial commitments is solely reliant upon sustained, favorable business or economic developments. "CC" Rating indicates that default of some kind appears probable. "C" Ratings signal imminent default.
CC	
C	
D	Distressed. Extremely weak capacity with limited liquid assets to meet policyholders and contractual obligations, or subjected to some form of regulatory intervention and declared insolvent by the regulator.

Outlook (Stable, Positive, Negative, Developing) Indicates the potential and direction of a rating over the intermediate term in response to trends in economic and/or fundamental business/financial conditions. It is not necessarily a precursor to a rating change. 'Stable' outlook means a rating is not likely to change. 'Positive' means it may be raised. 'Negative' means it may be lowered. Where the trends have conflicting elements, the outlook may be described as 'Developing'.

Rating Watch Alerts to the possibility of a rating change subsequent to, or in anticipation of, a) some material identifiable event and/or b) deviation from expected trend. But it does not mean that a rating change is inevitable. A watch should be resolved within foreseeable future, but may continue if underlying circumstances are not settled. Rating Watch may accompany Outlook of the respective opinion.

Suspension It is not possible to update an opinion due to lack of requisite information. Opinion should be resumed in foreseeable future. However, if this does not happen within six (6) months, the rating should be considered withdrawn.

Withdrawn A rating is withdrawn on a) termination of rating mandate, b) cessation of underlying entity, c) the debt instrument is redeemed, d) the rating remains suspended for six months, e) the entity/issuer defaults., or/and f) PACRA finds it impractical to surveil the opinion due to lack of requisite information.

Harmonization A change in rating due to revision in applicable methodology or underlying scale.

Disclaimer: PACRA's IFS rating does not constitute any form of guarantee of the ability of the insurance company to meet policyholders' obligations; nor does it constitute a recommendation to effect or discontinue any policy of insurance. PACRA's rating is not a recommendation to purchase, sell or hold a security, in as much as it does not comment on the security's market price or suitability for a particular investor.

Rating Team Statements

(1) Rating is just an opinion about the creditworthiness of the entity and does not constitute recommendation to buy, hold or sell any security of the entity rated or to buy, hold or sell the security rated, as the case may be | Chapter III; 14-3-(x)

2) Conflict of Interest

- i. The Rating Team or any of their family members have no interest in this rating | Chapter III; 12-2-(j)
- ii. PACRA, the analysts involved in the rating process and members of its rating committee, and their family members, do not have any conflict of interest relating to the rating done by them | Chapter III; 12-2-(e) & (k)
- iii. The analyst is not a substantial shareholder of the customer being rated by PACRA [Annexure F; d-(ii)] Explanation: for the purpose of above clause, the term "family members" shall include only those family members who are dependent on the analyst and members of the rating committee

Restrictions

- (3) No director, officer or employee of PACRA communicates the information, acquired by him for use for rating purposes, to any other person except where required under law to do so. | Chapter III; 10-(5)
- (4) PACRA does not disclose or discuss with outside parties or make improper use of the non-public information which has come to its knowledge during business relationship with the customer | Chapter III; 10-7-(d)
- (5) PACRA does not make proposals or recommendations regarding the activities of rated entities that could impact a credit rating of entity subject to rating | Chapter III; 10-7-(k)

Conduct of Business

- (6) PACRA fulfills its obligations in a fair, efficient, transparent and ethical manner and renders high standards of services in performing its functions and obligations; | Chapter III; 11-A-(a)
- (7) PACRA uses due care in preparation of this Rating Report. Our information has been obtained from sources we consider to be reliable but its accuracy or completeness is not guaranteed. PACRA does not, in every instance, independently verifies or validates information received in the rating process or in preparing this Rating Report.
- (8) PACRA prohibits its employees and analysts from soliciting money, gifts or favors from anyone with whom PACRA conducts business | Chapter III; 11-A-(q)
- (9) PACRA ensures before commencement of the rating process that an analyst or employee has not had a recent employment or other significant business or personal relationship with the rated entity that may cause or may be perceived as causing a conflict of interest; | Chapter III; 11-A-(r)
- (10) PACRA maintains principal of integrity in seeking rating business | Chapter III; 11-A-(u)
- (11) PACRA promptly investigates, in the event of a misconduct or a breach of the policies, procedures and controls, and takes appropriate steps to rectify any weaknesses to prevent any recurrence along with suitable punitive action against the responsible employee(s) | Chapter III; 11-B-(m)

Independence & Conflict of interest

- (12) PACRA receives compensation from the entity being rated or any third party for the rating services it offers. The receipt of this compensation has no influence on PACRA's opinions or other analytical processes. In all instances, PACRA is committed to preserving the objectivity, integrity and independence of its ratings. Our relationship is governed by two distinct mandates i) rating mandate - signed with the entity being rated or issuer of the debt instrument, and fee mandate - signed with the payer, which can be different from the entity
- (13) PACRA does not provide consultancy/advisory services or other services to any of its customers or to any of its customers' associated companies and associated undertakings that is being rated or has been rated by it during the preceding three years unless it has adequate mechanism in place ensuring that provision of such services does not lead to a conflict of interest situation with its rating activities; | Chapter III; 12-2-(d)
- (14) PACRA discloses that no shareholder directly or indirectly holding 10% or more of the share capital of PACRA also holds directly or indirectly 10% or more of the share capital of the entity which is subject to rating or the entity which issued the instrument subject to rating by PACRA; | Reference Chapter III; 12-2-(f)
- (15) PACRA ensures that the rating assigned to an entity or instrument is not be affected by the existence of a business relationship between PACRA and the entity or any other party, or the non-existence of such a relationship | Chapter III; 12-2-(i)
- (16) PACRA ensures that the analysts or any of their family members shall not buy or sell or engage in any transaction in any security which falls in the analyst's area of primary analytical responsibility. This clause shall, however, not be applicable on investment in securities through collective investment schemes. | Chapter III; 12-2-(l)
- (17) PACRA has established policies and procedure governing investments and trading in securities by its employees and for monitoring the same to prevent insider trading, market manipulation or any other market abuse | Chapter III; 11-B-(g)

Monitoring and review

- (18) PACRA monitors all the outstanding ratings continuously and any potential change therein due to any event associated with the issuer, the security arrangement, the industry etc., is disseminated to the market, immediately and in effective manner, after appropriate consultation with the entity/issuer; | Chapter III | 18-(a)
- (19) PACRA reviews all the outstanding ratings on semi-annual basis or as and when required by any creditor or upon the occurrence of such an event which requires to do so; | Chapter III | 18-(b)
- (20) PACRA initiates immediate review of the outstanding rating upon becoming aware of any information that may reasonably be expected to result in downgrading of the rating; | Chapter III | 18-(c)
- (21) PACRA engages with the issuer and the debt securities trustee, to remain updated on all information pertaining to the rating of the entity/instrument; | Chapter III | 18-(d)

Probability of Default

(22) PACRA's Rating Scale reflects the expectation of credit risk. The highest rating has the lowest relative likelihood of default (i.e, probability). PACRA's transition studies capture the historical performance behavior of a specific rating notch. Transition behavior of the assigned rating can be obtained from PACRA's Transition Study available at our website. (www.pacra.com). However, actual transition of rating may not follow the pattern observed in the past | Chapter III | 14-(F-VII)

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